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SIPDIS

SENSITIVE
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STATE FOR NEA/MAG (HARRIS)
STATE PASS USTR (BURKHEAD)
USDOC FOR ITA/MAC/ONE (NATHAN MASON), ADVOCACY CTR (REITZE), AND
CLDP (TEJTEL)
CASABLANCA FOR FCS (ORTIZ)
LONDON AND PARIS FOR NEA WATCHER

E.O. 12958: N/A

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SUBJECT: TUNISIA ECONOMIC HIGHLIGHTS

REF: TUNIS 113

07 TUNIS 1528
07 TUNIS 758
06 TUNIS 2749

¶1. (U) This cable contains highlights of recent economic developments in Tunisia on the following topics:

- ¶A. Tunisia Economy Posts 5.8 Percent Year-On-Year Growth
- ¶B. Hike in Gasoline Prices
- ¶C. Stock Market Records Largest IPO To Date
- ¶D. Central Bank Keeps Benchmark Interest Rate Steady
- ¶E. Italian Leasing Bank Opens Branch

Tunisia Economy Posts 5.8 Percent Year-On-Year Growth

¶2. (U) According to recently released Tunisian National Institute of Statistics (INS) figures, Tunisia's economy expanded by 5.8 percent year-on-year in the last quarter of 2007 as the transport and telecommunications sectors strengthened their performances. GDP growth for 2007 has been reported as reaching 6.3 percent, topping an initial forecast of 6.0 percent. Tunisia's GDP stood at 6.074 billion dinars (US \$5.267 billion) in the final three months of the year, up from 5.739 billion dinars (US \$4.976 billion) in the same period of 2006. The transport and telecommunication services industries grew 16 percent in the quarter, while manufacturing expanded by 11 percent. Rising exports boosted the textile sector's growth to 9.7 percent in the final three months of the year, while food processing industries grew 4.4 percent.

¶3. (U) The GOT has announced a target of 6.1 percent growth for 2008. Prime Minister Mohamed Ghannouchi stated that he hopes a strengthening private sector based on information technology and services will accelerate the average annual growth rate to 6.3 percent in the next 10 years. This improvement over the previous decade's 5.0 percent average would help cut unemployment. However, the International Monetary Fund Article IV Report anticipates that Tunisian growth will slow to 5.7 percent this year as a result of soaring commodity prices and weaker European markets.

Hike in Gasoline Prices

¶4. (U) On March 2, the GOT announced an increase in domestic gasoline prices by 4.16 percent to cut an energy budget deficit that has widened due to soaring world prices. The price of unleaded gas rose to 1.250 dinars (US \$1.05) per liter from 1.200 dinars (US \$0.95). The last price increase was in October 2007, but gas prices have been raised 10 times since 2004 (Ref B). The GOT has estimated that each one dollar increase in the price of crude oil creates a US \$28 million increase in government expenditures.

Stock Market Records Largest IPO To Date

¶5. (U) On March 17, the Tunisian Stock Exchange (BVMT) launched its largest capitalization operation to date with the US \$219.16 million initial public offering (IPO) of Tunisian car dealer Artes. Artes is part of the Mzabi Group, one of Tunisia's largest business groups, and is the distributor for Nissan and Renault. Artes issued 7,695,900 shares, 30.2 percent of the company, for a share price of 10.330 dinars (US \$9.12). The IPO, which is open to foreign investors, was split between fixed-price offering on the stock exchange and guaranteed placement organized by local brokerages FINACorp and BNA Capitaux. The firm's capitalization represents 3.9 percent of the total market.

¶6. (SBU) Comment: The Stock Exchange expects for new firms to list on the primary market this year, a welcome improvement given the small number (50) of listed companies on the primary market (Ref A).

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The GOT has encouraged Tunisian companies to list by providing a 10 percent tax break for five years to those companies that offer 30 percent or more of their capital. End Comment.

Central Bank Keeps Benchmark Interest Rate Steady

¶7. (U) On March 25, Tunisia's Central Bank (BCT) announced it will keep its benchmark interest rate on hold at 5.25 percent while it assesses the potential impact of global economic problems on export growth. Consumer prices rose 5.7 percent year-on-year in February, down from 5.8 percent in January but still under pressure from high world commodity prices. The last time the BCT changed its benchmark rate was in September 2006.

¶8. (SBU) Comment: While many Middle Eastern countries have used monetary policy to blunt the impact of the declining dollar and weakening US economic growth, limited economic ties with the United States lessen the effect on Tunisia. Although inflation is up due to high world commodity prices, the BCT rarely alters benchmark interest, having only changed the rate once since 2003. In 2006, the BCT raised the benchmark rate from 5.0 to 5.25 percent in an effort to halt rising inflation (Ref D). However, the large share of fixed prices in the economy constitutes a major impediment to inflation targeting. One-third of products in the Consumer Price Index basket have fixed prices, hampering the BCT's ability to use monetary policy to tackle inflation. The use of monetary policy for targeting inflation remains a new concept for the BCT, which only assumed responsibility for it in 2006 (Ref C).

Italian Leasing Bank Opens Branch

¶9. (U) On March 6, a major Italian leasing bank, Banca Agrileasing, opened its first branch in Tunisia. Agrileasing, a division of Italy's Cooperative Credit, aims to support Italian small and medium-sized enterprises. During a press conference held in Tunis, Director of Tunisia Agrileasing Mariella Liverani said the opening

of was a first step on the road to a larger presence of the Italian Cooperative Credit in the Mediterranean. Banca Agrileasing is the fourth Italian and tenth foreign bank to open a branch in Tunisia.

¶10. (U) Italian presence in the Tunisian banking sector remains limited. Three major Italian banks, Monte dei Paschi di Sienna, Banca di Roma/Capitalia and Banca Intesa, have branch offices in Tunisia, but there is no Italian commercial bank presence. There is considerable minority equity holding from Italy in several of Tunisia's private banks. Italy is one of Tunisia's major trading partners, with over 4.7 billion dinars (US \$3.713 billion) in Italian exports to Tunisia in 2007.

GODEC